McDevitt & Miller LLP
Lawyers

420 West Bannock Street
P.O. Box 2564-83701
Boise, Idaho 83702

(208) 343-7500
(208) 336-6912 (Fax)

Chas. F. McDevitt
Dean J. (Joe) Miller
Celeste K. Miller

September 15, 2014

Via Hand Delivery

Jean Jewell, Secretary
Idaho Public Utilities Commission
472 W. Washington St.
Boise, Idaho 83720

Re: Idaho Forest Group LLC/Case No. AVU-E-14-06

Dear Ms. Jewell:

Enclosed for filing in the above matter, please find an original and seven copies of the Comments of Idaho Forest Group LLC.

Kindly return a file stamped copy to me.

Very Truly Yours,

McDevitt & Miller LLP

Dean J. Miller

DJM/hh
Enclosures

ORIGINAL

Dean J. Miller (ISB No. 1968)
Chas. F. McDevitt (ISB No. 835)
Celeste K. Miller (ISB No. 2590)
McDEVITT & MILLER LLP
420 West Bannock Street
P.O. Box 2564-83701
Boise, ID 83702
Tel: 208.343.7500
Fax: 208.336.6912
joe@mcdevitt-miller.com
chas@mcdevitt-miller.com
ck@mcdevitt-miller.com

Attorney for Idaho Forest Group, LLC.

RECEIVED
2014 SEP 15 PM 3: 13
IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE POWER COST ADJUSTMENT (PCA) ANNUAL RATE ADJUSTMENT FILING OF VISTA CORPORATION.	**Case No. AVU-E-14-06** **COMMENTS OF IDAHO FOREST GROUP**

COMES NOW Idaho Forest Group LLC ("IFG" or "Idaho Forest") and pursuant to Order No. 33095 submits the following Comments.

For the reasons that follow, Idaho Forest recommends that PCA surcharge rate for the 2014 surcharge year be set at .00119 per kWh, rather than the rate of .00252 per kWh proposed by the Company.

Idaho Forest Group

Idaho Forest operates two lumber sawmills in Avista's service area—one at Grangeville and one at Lewiston, Idaho. Each mill takes electric service from Avista under Schedule 25. Combined, the two mills purchased over 57,976,000 kWh of electric energy from Avista in 2013.

Electric power expense is a matter of significant concern to IFG. After purchase of raw materials and labor, electric power is the largest operating expense at the two mills.

The Power Cost Adjustment (PCA)

As filed, Avista's proposed PCA surcharge would pass through an approximate $12.3 million increased power supply costs that occurred in the twelve-month period that ended June 30, 2014 or an average increase of approximately 5.0%. Because of IFG's high load factor, the proposed uniform cents per kilowatt-hour surcharge to IFG's mills taking service under Schedule 25 would experience an 8% overall increase compared to the system average increase of 5% and a residential service increase of 4.1%.[1]

---

[1] Application news release.

The following table depicts in more detail the deferral components of the proposed PCA adjustments[2]:

IFG Table No 1 - Changes in Avista Deferrals by Component from 2013

Line No	Description		[1] 6/30/2013 Amount	[2] 6/30/2014 Amount	[3] Changes - $	[4] Percent of Total (*)
1	Hydro		(1,504,325)	1,210,948	2,715,273	15.85%
2	Colstrip		(1,309,976)	4,082,573	5,392,549	53.42%
3	Kettle Falls		-	(902,824)	(902,824)	-11.81%
4	Transmission		590,167	466,963	(123,204)	6.11%
5	Gas Fired		(7,809,885)	2,674,488	10,484,373	35.00%
6	Retail Load		(253,663)	1,317,622	1,571,285	17.24%
7	Prices, Other		3,482,561	(4,933,612)	(8,416,173)	-64.56%
8	Palouse		-	2,171,646	2,171,646	28.42%
9	REC Adjustment		-	(123,048)	(123,048)	-1.61%
10	Net Power Cost - (Decrease)/Increase		(6,805,121)	5,964,756	12,769,877	78.05%
11	10% Absorbed by the Company	0.10	(680,512)	596,476	1,276,988	7.81%
12	90% Deferred	0.90	(6,124,609)	5,368,280	11,492,889	70.25%
13	Clearwater Adjustment		(89,333)	2,320,289	2,409,622	30.36%
14	WA EIA REC Transfer		-	(46,386)	(46,386)	-0.61%
15	Actual Power Supply Expense - (Decrease)/Increase		(6,213,942)	7,642,183	13,856,125	100.00%

As can be seen in the above table, $5.4 million (53%) of the total deferred power supply increase is attributable to the component labeled "Colstrip." As discussed below, IFG asks the Commission to consider the propriety of allowing recover of Colstrip costs in this PCA proceeding.

[2] Prepared by IFG consultant, Lawrence Crowley.

Colstrip

Colstrip is a four unit coal-fired plant jointly owned by Avista, NorthWestern Energy, PacifiCorp, PPL-Montana, Portland General Electric, and Puget Sound Energy. Avista's share of the plant is 15 percent of Units 3 and 4, or 222 MW.

Although not directly relevant to this case, it is worth noting, for context that continued operation of Colstrip is controversial. In its 2013 Integrated Resource Plan, Avista, as required by the Washington Utilities and Transportation Commission presents two power supply scenarios, one with Colstrip and one with it excluded. Avista also identifies a list of environmental and regulatory risk and costs associated with continued operation of the Colstrip plant.[3]

The Colstrip Forced Outage

The Colstrip generating plant was out of service between July 1, 2013 and January 23, 2014. Avista has described the cause of the outage this way:

> "After returning from service after a routine scheduled generator overhaul that began in May 2013, a generator protective relay tripped the unit at Colstrip at approximately 10:20 pm on July 1, 2013. The unit experienced massive core damage and moderate rotor damage".
>
> "The forced outage that occurred on Colstrip Unit 4 on July 1st, 2014 resulted from damage to the unit's generator. The generator experienced significant core, rotor, and related equipment damage."[4]

During the period of the outage, Avista purchased replacement power at prices higher than the cost of Colstrip power, resulting in the increased power supply expense identified above (referred to hereafter as "Colstrip extraordinary expense"). IFG does not question the accuracy of the mathematical calculations of those costs.

---

[3] 2013 IRP, Pgs. 8-26—8-31. Case No. AVU-13-07. Some Commenters believe Avista understates these costs and risks. *See* Comments of Snake River Alliance, Idaho Conservation League, Sierra Club.
[4] Avista Response to Clearwater Paper Request No. 4.

Recovery of Colstrip Extraordinary Expense in the PCA

It is clear from the foregoing that the Colstrip extraordinary expense was not a fluctuation of normal power supply expense occurring in the ordinary course of business—it was the result of a one-time non-recurring causality event.

Based on its review of Commission orders[5] relating to the Avista PCA, IFG believes the core purpose of the PCA is to permit speedy recovery (or rebate) of the ups and downs of power supply expense such as changes from normal hydro conditions, surplus market changes and changes in the cost of fuels, that occur in the ordinary course of Avista's business operation as an electric utility.

The issue presented in this case is whether extraordinary expense resulting from a non-recurring causality event should also be recovered in the PCA. Idaho Forest believes there are solid reasons it should not.

In one prior case, the Commission recognized this is a legitimate issue, although the Commission did not fully resolve it. In an Idaho Power Company PCA case, IPC-E-04-09, Idaho Power experienced a forced outage of its Valmy generating facility requiring Idaho Power to purchase replacement power at rates higher than the variable costs for Valmy. In Comments, Staff said the PCA was established to adjust for ordinary power supply expenses but was not intended to "automatically flow through costs associated with type of event. Absent the PCA, these costs would not even be considered without special application from the Company."[6] In response, the Commission did not allow immediate inclusion of Valmy excess costs, but

---

[5] Order Nos. 30161, 30361, 30645, 30919, 32080, 32375, 32694, 32892. In none of the cases associated with these Orders did the Company include a component for recovery of a one-time extraordinary expense resulting from a casualty event.

[6] Order No. 29506, Pg. 5.

encouraged the parties to examine the issue in more detail informally and hopefully "reach a settlement that is fair to both the Company and its ratepayers."[7]

The observation in Staff Comments, quoted above, is correct. Generally, extraordinary non-recurring casualty losses are not recoverable absent special rate treatment[8]. Thus, implicit in the Commission's call for a settlement is the recognition that automatic recovery of this type of cost is questionable, at best.

Idaho Forest further notes that during the period of the Colstrip outage Avista's base rates included, and ratepayers were paying, a component for the ongoing Colstrip fixed costs which include return on equity, depreciation, taxes and operation and maintenance expenses. In the compressed timetable for this PCA case, Idaho Forest has been unable to isolate and quantify those fixed costs, but they undoubtedly exist and they are likely significant. If the Colstrip extraordinary costs are allowed in the PCA, ratepayers would not only pay those costs, but the fixed costs of a facility not used and useful. The approval of Avista's request for inclusion of these extraordinary expenses together with the continued payment of ongoing fixed costs amounts to a disproportionate and unfair allocation of risk to ratepayers and very little, if any, to shareholders.

In the compressed timetable associated with a PCA Application it is not possible to fully investigate the circumstances leading to the Colstrip forced outage, to the extent they are relevant.[9]

---

[7] *Id.* Pg. 7.
[8] *See* Application of Washington Water Power, Case No. E-98-11, Order No. 28097, Pg. 10 (Ice storm expenses not recoverable in absence of request for deferral or request for recovery); Application of Idaho Power, Case No. IPC-E-94-5, Order No. 25880, P. 8 (Extraordinary environmental clean-up costs not recoverable in absence of deferral or request for rate recovery).
[9] IFG acknowledges that in the course of discovery in this case Avista provided, as a confidential discovery response, what appears to be an independent root cause engineering analysis. However, there has not been an opportunity to subject that report to rigorous scrutiny or independent review.

The following table[10] re-calculates the PCA surcharge by eliminating the Colstrip extraordinary expense but leaves the other major components unchanged, resulting in a PCA surcharge rate of .00119.

IFG Table No 2 – Recalculation PCA Rate

Line No	Description	[1] 6/30/2013 Amount	[2] 6/30/2014 Adjust Amount		[3] Changes
1	Deferrals including Interest - less Colstrip	(4,382)	3,623	(*)	8,005
2	Interest - 7/1/13-9/30/13	(11)	19		30
3	Projected under-recovered Balance at 9/30/13	(142)	-		142
4	Forecasted Interest 10/1/13-9/30/14	(23)	38		61
5	Gas Transport Adjustment - 2014	-	505		505
6	Projected Excess Rebate to Customers at 9/30/14	-	162		162
7	Rebate of 2013 Earnings Test Amounts	-	(713)		(713)
8	Total to (Rebate)/Surcharge including interest	(4,558)	3,634		8,192
9	Conversion Factor	0.99501	0.99501		0.99501
10	Revenue Requirement (Line 8/Line 9)	(4,581)	3,652		8,233
11	Pro Forma kWh's	3,021,657	3,075,297		53,640
12	Proposed (Rebate)/Surcharge Rate as of October 1	(0.00152)	0.00119		0.00270

(*) Avista original value of $7,706,000 less Colstrip adjustment of $4,082,573.

The suggested surcharge rate is fair, just and reasonable. It allows Avista to recover, in a speedy way, the normal fluctuations of power supply expense that are legitimately included in a power cost adjustment. At the same time, it insulates ratepayers from inclusion of one-time, extraordinary expenses that have not been fully investigated.

Idaho Forest believes that in a full general rate case in which Colstrip operations and expenses were normalized for the 2013 period, other components of the PCA—transmission, surplus sales, gas fired—would also be impacted resulting in an even lower PCA rate. The current approved Idaho PCA does not permit normalizing adjustments. IFG's proposed

[10] Prepared by IFG consultant Lawrence Crowley.

calculation of the 2014 PCA rate is just, fair and reasonable given the constraints of the current methodology, the timetable for this case and the information available.

Idaho Forest defers to the Commission's judgment to prescribe further proceedings, if any, to investigate whether some or all of the Colstrip extraordinary expense should be recoverable.

Conclusion

Based on the foregoing, Idaho Forest respectfully requests that the Commission:

1. Approve IFG's recommended surcharge rate for the 2014 PCA year of .00119/kWh;
2. Prescribe such further proceedings, in any, as may be appropriate with respect to the Colstrip extraordinary expense;
3. Grant such other relief as is appropriate.

DATED this 15 day of September, 2014

IDAHO FOREST GROUP LLC

By: ______________________
Dean J. Miller
Attorney for Idaho Forest Group, LLC.

CERTIFICATE OF SERVICE

I hereby certify that on the 15th day of September, 2014, I caused to be served, via the method(s) indicated below, true and correct copies of the foregoing document, upon:

Jean Jewell, Secretary	Hand Delivered	☒
Idaho Public Utilities Commission	U.S. Mail	☐
472 West Washington Street	Fax	☐
P.O. Box 83720	Fed. Express	☐
Boise, ID 83720-0074	Email	☐
jjewell@puc.state.id.us		

David J. Meyer, Vice President	Hand Delivered	☐
Kelly Norwood, Vice President	U.S. Mail	☐
Avista Utilities	Fax	☐
P.O. Box 3727	Fed. Express	☐
1411 E. Mission Ave	Email	☒
Spokane, WA 99220-3727		
david.meyer@avistacorp.com		
kelly.norwood@avistacorp.com		

Donald L. Howell, II	Hand Delivered	☐
Deputy Attorneys General	U.S. Mail	☐
Idaho Public Utilities Commission	Fax	☐
472 W. Washington (83702)	Fed. Express	☐
PO Box 83720	Email	☒
Boise, ID 83720-0074		
don.howell@puc.idaho.gov		

Peter J. Richardson	Hand Delivered	☐
Gregory M. Adams	U.S. Mail	☐
Richardson Adams, PLLC	Fax	☐
515 N. 27th Street	Fed. Express	☐
P.O. Box 7218	Email	☒
Boise, Idaho 83702		
peter@richardsonadams.com		

Marv Lewallen	Hand Delivered	☐
Clearwater Paper Corporation	U.S. Mail	☐
601 W. Riverside Ave., Suite 1100	Fax	☐
Spokane, WA 99201	Fed. Express	☐
Marv.lewallen@clearwaterpaper.com	Email	☒

Dr. Don Reading	Hand Delivered	☐
6060 Hill Road	U.S. Mail	☐
Boise, Idaho 83703	Fax	☐
dreading@mindspring.com	Email	☒

BY: Heather Houle
McDEVITT & MILLER LLP